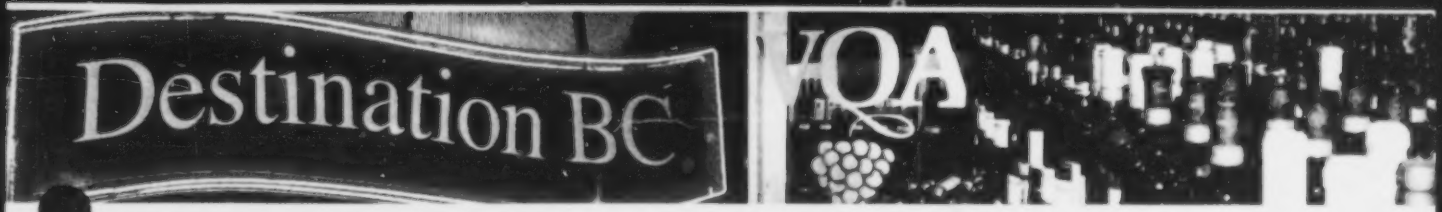

British Columbia

Liquor Distribution Branch

Service Plan for Fiscal Years 2005/06 - 2007/08

Letter from the General Manager

105-04484/

The Honourable Rich Coleman,
Minister of Public Safety and Solicitor General:

On behalf of all of the employees of the Liquor Distribution Branch (LDB), I am pleased to present our service plan for fiscal years 2005/06 to 2007/08.

This plan supports our mission to be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and social responsibility.

Over the three years covered by this plan, the LDB estimates it will generate $2.4 billion net income to government.

Our performance targets are ambitious in many areas. However, I believe they are attainable with the continued dedication, commitment and support of all of our employees and industry stakeholders.

We recognize the importance of our industry stakeholders and wholesale customers. We look forward to working with them to increase customer choice and convenience, while continuing to protect government revenues and ensure socially responsible liquor service.

This plan has been prepared in accordance with the Budget Transparency and Accountability Act and is consistent with government's priorities and overall strategic plan.

All significant assumptions, policy decisions, and identified risks as of January 2005 have been considered. I am responsible to the Solicitor General for ensuring the LDB achieves the specific objectives identified and for measuring and reporting actual results.

Jay Chambers
General Manager

Beer Cider Coolers

Discover the World

WINES
BRITISH COLUMBIA

BC
LIQUOR
STORE

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Organization Overview

Role of the Liquor Distribution Branch

In British Columbia, the Liquor Distribution Branch (LDB) under the authority of the Liquor Distribution Act, has the sole right to purchase beverage alcohol, both in and out of British Columbia, in accordance with the Importation of Intoxicating Liquors Act (Canada).

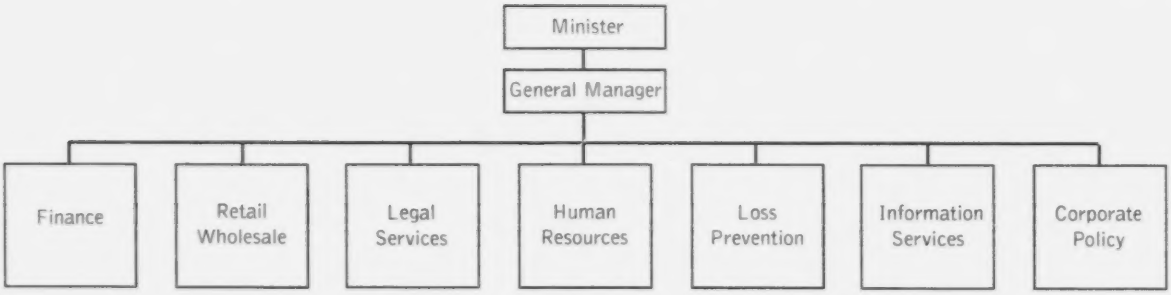
Reporting to the Minister of Public Safety and Solicitor General, the LDB is responsible for the importation, distribution, wholesaling and retailing of beverage alcohol in British Columbia and operates government liquor stores and distribution centres in the province. The LDB is also responsible for the appointment of private retail agency stores*.

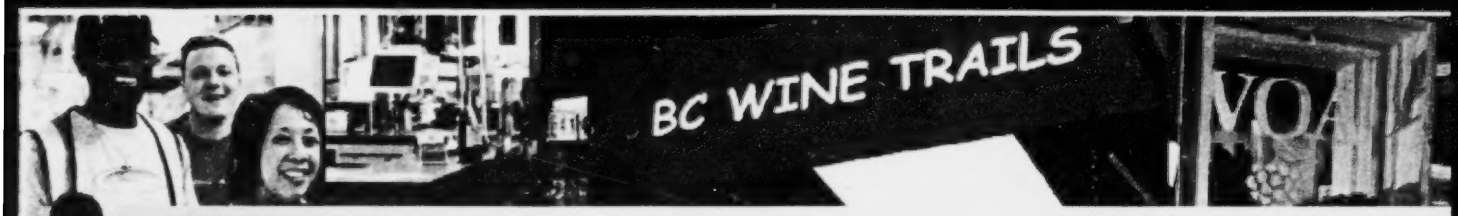
The Liquor Distribution Act specifies that the minister must appoint a general manager and that the general manager is responsible for administering the Act, including the general control, management and supervision of liquor stores, subject to the orders, directions and supervision of the minister.

The Act further clarifies the powers of the general manager and delineates the administration of the LDB and the operation of its liquor stores. The LDB follows the Crown Agencies Secretariat guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial crown corporation, on a modified equity basis.

Another branch within the Ministry of Public Safety and Solicitor General, the Liquor Control and Licensing Branch (LCLB), enforces the Liquor Control and Licensing Act. The LCLB is responsible for the licensing, monitoring and enforcement of the Act and regulations related to private liquor stores, restaurants, pubs, and manufacturers.

*Agency stores refer to rural agency stores, consignment agency stores, independent wine stores, winery agency stores and tourist wine shops.





Organization Overview

Business of the Liquor Distribution Branch

With a workforce of approximately 3,500 full and part-time employees, the LDB operates, as of January 2005:

- 215 government liquor stores throughout the province;
- two distribution centres, one in Vancouver and one in Kamloops; and
- a head office facility in Vancouver.

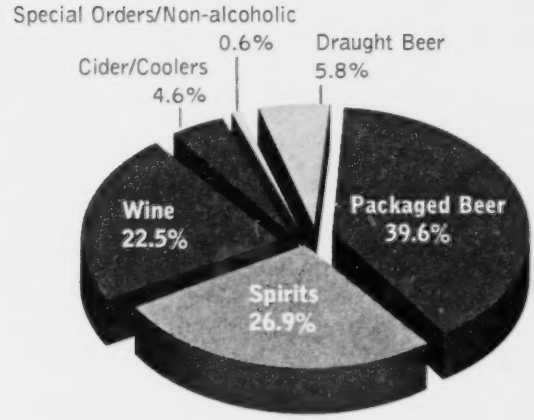
The LDB issues appointments or authorizations and enters into contracts with the private sector for the operation of private retail outlets, such as licensee retail stores, rural agency stores, beverage alcohol manufacturer stores, independent wine stores and duty-free stores. These authorizations and agreements are in addition to any licensing terms that may be in place with the LCLB.

As of January 2005, private sector retail establishments included:

- 517 licensee retail stores (LRSs);
- 229 rural agency stores (RASs);
- 113 on-site manufacturer stores (wineries, breweries and distilleries with retail shops);
- 26 off-site manufacturer stores (land-based wineries with off-site appointments, e.g. VQA wines);
- 12 independent wine stores; and
- 10 duty-free stores.

The LDB purchases beverage alcohol from around the world and from suppliers and manufacturers in British Columbia and other provinces. Licensed manufacturing sites in British Columbia include 111 wineries, 52 breweries and brew pubs, and seven distilleries. The LDB buys products from more than 400 manufacturers.

Percentage of Gross $ Sales by Product Category 2003/04



Percentage of Gross $ Sales by Retail Channel 2003/04

BC LIQUOR STORE

Strategic Context

Vision

That our customers have the opportunity to discover, enjoy and share the evolving worlds of beverage alcohol.

Mission

To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and social responsibility.

Values

Exemplary Service
We take pride in the quality of our work. We strive for excellence in serving customers and co-workers.

Public Safety and Social Responsibility
We encourage and support the responsible use of beverage alcohol.

Integrity
We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect
We treat all individuals with fairness, dignity and respect.

Teamwork
We support one another to achieve corporate goals.

Innovation
We encourage our people to find innovative and creative ways to improve our business.

Planning Context and Key Strategic Issues

The Liquor Distribution Branch (LDB) operates a province-wide retail and wholesale business within a public-private model.

The Changing Retail Environment

The beverage alcohol retailing environment in British Columbia has changed substantially over the past few years, moving to an expanded mixed retail model and introducing more choice into the consumer market. Licensee retail stores (LRSs) are now able to sell spirits, detach a store from its primary business, increase store size, and have added flexibility in regards to price and brand advertising. As of January 2005, there were 517 LRSs, which is an increase of 227 over the past two years.

With the exception of small rural communities, government restricts retail liquor sales to stand-alone liquor stores. New eligibility criteria have been approved for rural agency stores (general grocery stores permitted to sell liquor in small rural communities that do not have a liquor store).

LDB as a Wholesaler

The LDB will improve services to its wholesale customers by working with them to provide greater efficiencies and build a closer business relationship.

The LDB's wholesale customers include: LRSs, rural agency stores, restaurants, pubs, lounges, private wine stores, and duty-free operators.

LDB as a Retailer

The LDB will continue to improve efficiencies and services to customers by offering an enhanced shopping experience, operation and administration improvements and store network consolidation.

LDB as a Distributor

The LDB is making changes to its distribution system that will increase productivity and improve services to wholesale customers and LDB retail stores.

Strategic Context

Employees

The key to the successful implementation of this service plan is the dedication and commitment of LDB employees.

The LDB has a very low turnover rate, resulting in an experienced group of long-term employees. As these employees move closer to retirement, it is essential that the LDB has succession plans in place.

Technology

Technology has a major impact on the LDB's efficient and effective delivery of service to retail and wholesale customers. The LDB must continue to invest in upgrading and integrating its systems.

Public Safety and Social Responsibility

The LDB's role as a socially responsible retailer of beverage alcohol extends beyond addressing the requirements of current legislation.

The LDB plays an active role promoting the responsible use of beverage alcohol by supporting a number of initiatives throughout the network of government liquor stores. This includes public awareness programs, the promotion of responsible consumption, training programs for LDB employees and in-store promotional activities in partnership with beverage alcohol suppliers.

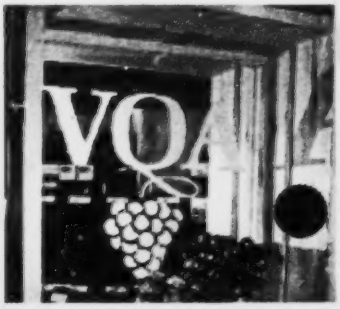
The LDB is also working with other levels of government and stakeholder groups to develop and initiate programs designed to encourage the responsible use of beverage alcohol.

British Columbia Wine Industry

The LDB, through its retail stores, is committed to expanding the profile and sale of British Columbia wines. The LDB will continue to partner with the provincial wine industry in the development of programs that showcase B.C. wines.

2010 Olympic Winter and Paralympic Winter Games

The LDB will be making plans to welcome visitors for the 2010 Winter Games. In the interim, the LDB has begun to support the marketing efforts of those beverage alcohol suppliers who have initiated specific Olympic related promotional programs.



Risk Management

Risk Factors and Sensitivities	Mitigating Strategy
Liquor is a discretionary consumer product and an unexpected downturn in the economy would negatively affect LDB sales projections.	The LDB will carefully monitor sales and will make necessary adjustments to operating expenses in order to achieve net income targets.
Liquor sales are negatively impacted by poor weather, particularly in the summer.	The LDB will carefully monitor sales and will make necessary adjustments to operating expenses in order to achieve net income targets.
Liquor is a high-value product and is susceptible to illicit activity such as cross-border smuggling and theft.	The LDB will work with appropriate provincial and federal enforcement agencies to identify and address illicit activity.
Shifts in sales from LDB stores to private stores increase the cost of discounts applied to private store purchases.	The LDB will carefully monitor discount costs and will make necessary adjustments to operating expenses if discount costs are negatively impacting the net income forecasts.

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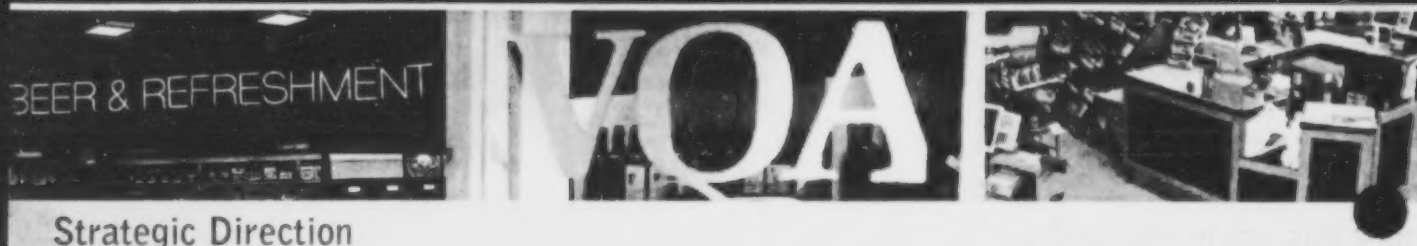


Strategic Direction

The Four Pillars Framework

The Liquor Distribution Branch has organized its strategic priorities and key objectives around the concept of four pillars. Overarching these four pillars is the financial performance goal, and supporting them are the LDB's dedicated employees.

High Level Goals

The five high level goals are:

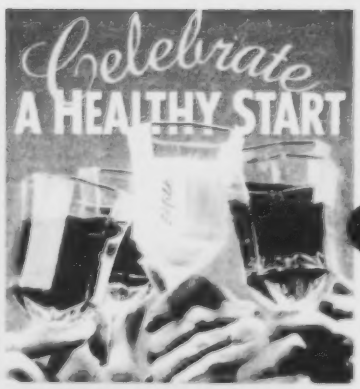
Goal 1: Financial Performance
Maximize net income within the policy guidelines established by government

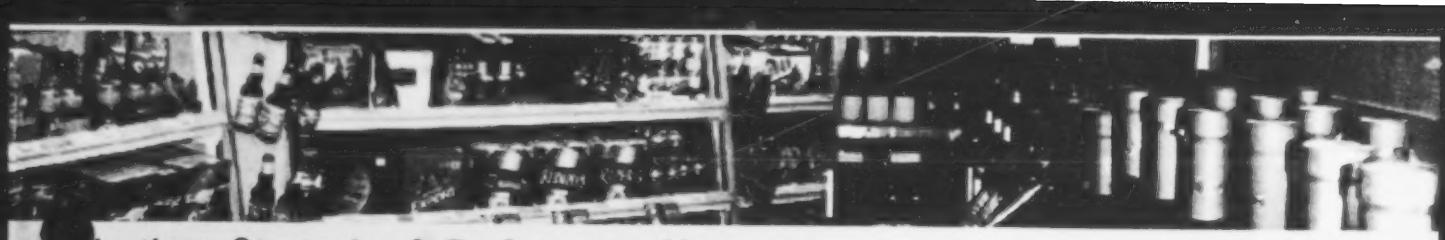
Goal 2: Workplace Quality and Employee Excellence
Build a customer-focused, high performance work environment that results in greater employee involvement, development, innovation and creativity

Goal 3: Customer Experience
Set the standard for excellence in the retailing of beverage alcohol

Goal 4: Business Effectiveness
Improve operating efficiencies and maximize wholesale customer satisfaction in a climate of continuous change in a public-private model

Goal 5: Public Safety and Social Responsibility
Encourage the responsible use of beverage alcohol





Goal 1: Financial Performance

Maximize net income within the policy guidelines established by government.

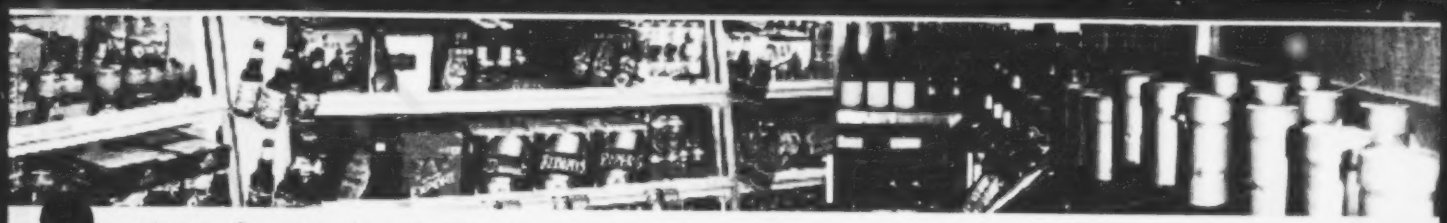
OBJECTIVES

1. Achieve or exceed net income targets

STRATEGIES

1. Grow sales and achieve operating efficiencies

PERFORMANCE MEASURES	BASELINE	TARGETS		
In millions $	Fiscal 2004-05 Projection	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08
Total sales	2,148.2	2,204.7	2,263.2	2,323.6
Gross margin	1,005.5	1,022.3	1,041.9	1,062.1
Operating expenses	241.7	246.3	251.4	256.7
Net income	767.6	779.0	793.6	808.4
Total LDB expenses as a percentage of total LDB sales	11.3	11.2	11.1	11.0



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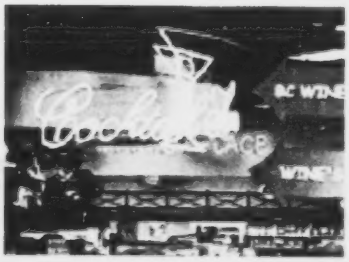


Objectives, Strategies & Performance Measures

Goal 2: Workplace Quality and Employee Excellence

Build a customer-focused, high performance work environment that results in greater employee involvement, development, innovation and creativity.

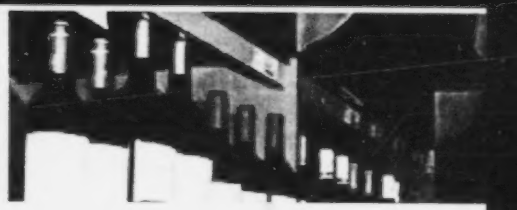
OBJECTIVES

1. Continue to develop a customer-focused workforce that is knowledgeable, skilled, motivated, and enthusiastic

STRATEGIES

1. Enhance staff skills through management development and employee training programs
2. Employ a competency-based recruitment process
3. Develop succession plans for key positions
4. Provide a safe, healthy and harassment-free workplace
5. Promote a retail-oriented culture through an enhanced performance management and recognition process

PERFORMANCE MEASURES	BASELINE	TARGETS		
	Fiscal 2004-05 Projection	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08
Employee satisfaction and engagement	Conduct initial survey and establish benchmarks	90%	90%	90%



Goal 3: Customer Experience

Set the standard for excellence in the retailing of beverage alcohol.

OBJECTIVES

1. Enhance the shopping experience for LDB retail customers

STRATEGIES

1. Revitalize the store network
2. Provide enhanced customer services
3. Improve customer access to British Columbia VQA wines

PERFORMANCE MEASURES	BASELINE	TARGETS		
	Fiscal 2004-05 Projection	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08
Total number of additional signature stores	3	11	8	6
Average retail customer transaction value	$26.00	$26.80	$27.60	$28.40
Increased dollar sales of VQA wines through LDB retail stores	0	+20%	+20%	+20%
Retail customer satisfaction	85%	90%	90%	90%

Objectives, Strategies & Performance Measures

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Signature

BC LIQUOR STORE

Objectives, Strategies & Performance Measures

Goal 4: Business Effectiveness

Improve operating efficiencies and maximize wholesale customer satisfaction in a climate of continuous change in a public-private model.

OBJECTIVES

1. Increase wholesale customer satisfaction
2. Improve cost efficiencies

STRATEGIES

1. Increase the use of available and emerging technology
2. Maximize the potential efficiencies available through improved distribution operations
3. Provide enhanced wholesale customer services

PERFORMANCE MEASURES	BASELINE	TARGETS		
	Fiscal 2004-05 Projection	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08
Wholesale customer satisfaction	85%	90%	90%	90%
Distribution centre accuracy rate	98.5%	99.0%	99.5%	100%
Distribution centre labour cost per case shipped	$1.67	$1.59	$1.51	$1.45
Number of LRSs receiving direct shipment	90	200	TBD	TBD
LDB stores operating costs as a percentage of sales	10.9%	10.9%	10.9%	10.9%
LDB store sales per square foot	$1,325	$1,443	$1,489	$1,534

Goal 5: Public Safety and Social Responsibility

Encourage the responsible use of beverage alcohol.

OBJECTIVES
1. No sales to minors or intoxicated persons 2. Increased awareness and promotion of the responsible use of beverage alcohol
STRATEGIES
1. Increased staff education and enforcement of 2-ID program requirements 2. Develop co-operative programs with beverage alcohol suppliers and other stakeholders

PERFORMANCE MEASURES	BASELINE	TARGETS		
	Fiscal 2004-05 Projection	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08
Staff compliance with 2-ID checking policy	82%	100%	100%	100%
Customer awareness and support of LDB's social responsibility programs	85%	90%	90%	90%
Implementation of co-operative responsible-use beverage alcohol programs	2	4	4	4

Objectives, Strategies & Performance Measures

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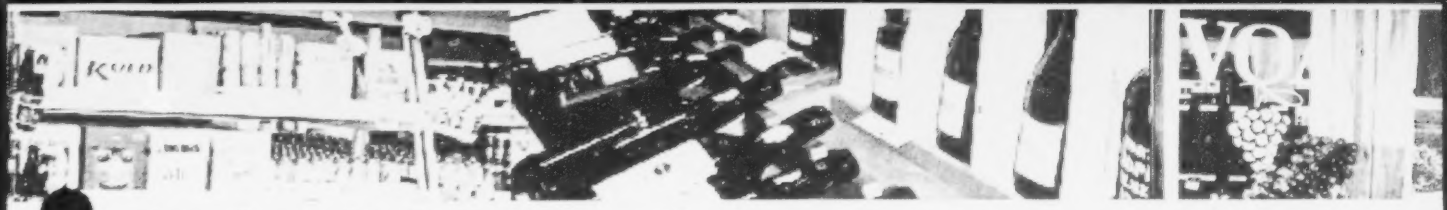

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Performance Measure Descriptions

Goal 1 – Financial Performance

Total Sales – Total gross dollar sales of beverage alcohol.

Gross Margin – Gross provincial dollar sales less discounts and cost of goods sold.

Operating Expenses – Total LDB operating expenses.

Net Income – Net income is the contribution made to government by the LDB. Net income is reported in accordance with generally accepted accounting principles.

Total LDB expenses as a percentage of total LDB sales – Operating expenses divided by total sales.

Total sales, gross margin and operating expenses are key drivers in achieving the LDB's net income targets.

Goal 2 – Workplace Quality and Employee Excellence

Employee satisfaction and engagement – The degree to which LDB employees feel satisfied with the work environment and involved with the corporate vision and mission. This will be evaluated by an employee survey. Employee performance is directly related to satisfaction of the work environment and commitment to the organization's vision/mission.

Goal 3 – Customer Experience

Total number of additional signature stores – A signature store is a larger store that offers an expanded product selection in an enhanced shopping environment. New signature stores will normally result in a consolidation of two or more smaller stores. Consolidating smaller stores into signature stores is a key strategy to deliver enhanced customer service within the mixed public-private retail model.

Average retail customer transaction value – Gross LDB store sales to retail customers divided by the number of retail customer transactions. This measure is an indicator of the LDB's success in improving the customer's retail shopping experience.

Increased dollar sales of VQA wines sold in LDB stores – The percentage change in LDB store gross dollar sales of British Columbia VQA wines from one fiscal year to the next. This measure is an indicator of the LDB's success in improving the customer shopping experience for quality British Columbia wines.

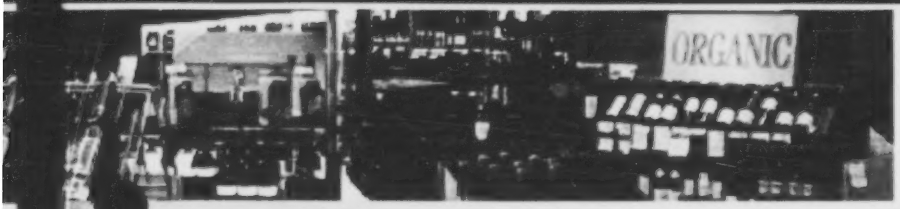
Retail customer satisfaction – Retail customer satisfaction with LDB store service as determined through consumer surveys. This measure is an indicator of the LDB's efforts to improve service to retail customers and will identify key opportunities for improvement.

Goal 4 – Business Effectiveness

Wholesale customer satisfaction – The level of wholesale customer satisfaction with LDB service as determined by customer surveys. This measure is an indicator of the LDB's efforts to improve service to wholesale customers and will identify key opportunities for improvement. The LDB's wholesale business is becoming increasingly important due to the expansion of the private retail network.

Distribution centre accuracy rate – Total cases shipped divided by total cases ordered. This measure is an indicator of the LDB supply chain's effectiveness in ensuring that LDB store and wholesale customer orders are accurately filled.

Distribution center labour cost per case shipped – Total distribution center labour expenses divided by total distribution center case shipments. This measure is an indicator of distribution center labour productivity.



Performance Measure Descriptions

.....Goal 4 – Business Effectiveness cont'd

Number of LRSs receiving direct shipments – The number of licensee retail stores that receive direct shipment of their LDB orders. Increasing the number of LRSs that receive direct shipments improves wholesale customer service and increases LDB distribution system efficiency.

LDB store operating costs as a percentage of sales – LDB store operating costs divided by total LDB store gross sales dollars. Licensee store 100 is excluded from the calculation. This measure is an indicator of LDB store operating efficiency.

LDB store sales per square foot – Total LDB store gross sales divided by total store system square feet. This is one measure of LDB store operating efficiency.

Goal 5 – Public Safety and Social Responsibility

Staff compliance with 2-ID checking policy – Compliance is measured by dividing the number of violations to the ID policy (two pieces of ID for anyone appearing to be under 25) by the number of times compliance is checked. The Liquor Control and Licensing Branch checks compliance through a mystery shoppers program. A high compliance percentage will ensure there are no sales to minors.

Customer awareness and support of LDB's social responsibility programs – The degree to which LDB store customers are aware of and support the LDB's social responsibility programs. This measure is determined by customer surveys.

Implementation of co-operative responsible beverage alcohol programs – The number of responsible beverage alcohol programs the LDB develops and implements in co-operation with suppliers and/or wholesale customers. Involving industry in responsible use programs will improve program effectiveness.

Benchmarking

The LDB is in the process of developing appropriate benchmarks to compare its performance with other organizations in similar or comparable businesses. Initially the LDB will focus on comparing itself with other Canadian liquor jurisdictions, as they have similar business models. Subsequently, the LDB will be reviewing private sector companies to identify appropriate processes, practices and critical success factors with which to benchmark.

The LDB is reviewing the following benchmarks; the appropriateness of these benchmarks will depend on the ability to obtain non-confidential, accurate information from the other jurisdictions.

Net government liquor revenue per capita – This measure will show how the British Columbia liquor system compares to other provinces from the perspective of generating government revenue.

Government liquor store operating expenses as a percentage of sales – This measure is an indicator of LDB store efficiency as compared to other provincial government stores.

Government liquor store sales per square foot – This is another indicator of the efficiency of the LDB's store system.

Distribution centre accuracy rate – This measure is an indicator of the effectiveness of supplying stores and wholesale customers from distribution centers.

Alignment with Government's Strategic Plan

As with all branches and agencies of government, the LDB is aligned to support and implement the government's strategic plan. The LDB will respond in the following ways to government's goals and applicable objectives:

OBJECTIVE	LIQUOR DISTRIBUTION BRANCH RESPONSE
Prosperous Economy	The branch is a key player in the provincial economy, generating net income for government and creating opportunities in the beverage alcohol industry (see Goal 1).
Employment Opportunities	The branch employs approximately 3,500 full and part-time employees throughout the province and supports the expanding private sector involvement in the beverage alcohol industry.
Affordable and Fiscally Responsible Government	The branch will be fiscally responsible through prudent expense management and business effectiveness (see Goals 1 and 4).
Healthy/Safe Communities	The branch will promote health and safety through its responsible use program (see Goal 5).

Summary Financial Outlook

Summary Financial Outlook (in thousands $)

	Actual 2003/04	Forecast 2004/05	Budget 2005/06	Budget 2006/07	Budget 2007/08
Total sales	1,998,223	2,148,169	2,204,745	2,263,175	2,323,619
Commissions and discounts	69,463	88,314	94,804	97,317	99,916
Cost of sales	992,225	1,054,359	1,087,632	1,123,914	1,161,582
Operating expenses	215,276	241,698	246,299	251,375	256,673
Other income	5,451	3,800	3,000	3,000	3,000
Net income	726,710	767,598	779,010	793,569	808,448
Capital requirements	1,265	12,000	30,322	21,000	13,000
FTEs	2,731	2,736	2,788	2,848	2,896

Key Forecast Assumptions

Forecast assumptions include sales increases of 2.4 per cent, 1.9 per cent, and 1.9 per cent over the next three years. Discount increases include a further two per cent market share shift to private outlets in 2005/06.

Risk factors and mitigating strategies are detailed on page 9.

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BC LIQUOR STORE

Changes from last year's plan

Key Changes from the 2004 – 2007 Service Plan

Each year the three-year Service Plan is reviewed and revised as necessary to align with the current environment. While the LDB's Vision, Mission and Values have remained constant from last year's Service Plan, changes were made in the following areas:

- An organizational chart was added to give readers a better understanding of the LDB's operational structure.

- **Goal 1 (Financial Performance)** - Gross margin and total LDB expenses as a percentage of total LDB sales were added as measures to provide additional information on the LDB's financial performance.

- **Goal 3 (Customer Experience)** - Average retail customer transaction value was added as an indicator of success in improving LDB customers' retail shopping experience.

- **Goal 3 (Customer Experience)** - Increased dollar sales of VQA wines through LDB stores was added as a measure of the LDB's continued support of premium British Columbia wines.

- **Goal 4 (Business Effectiveness)** - Wholesale customer satisfaction levels, distribution centre accuracy rates, and number of licensee retail stores receiving direct shipments from LDB warehouses were added to reflect an increased focus on the LDB's wholesale business.

- **Goal 5 (Public Safety and Social Responsibility)** - Staff compliance with 2-ID policy was added as a measure to strengthen the LDB's efforts in promoting public safety.

Overall the LDB has reduced the number of measures included in this service plan in order to focus on those of greatest strategic importance. This is consistent with the direction being taken by other Ministries and Crown Corporations, and with the recommendations that have been made by the Auditor General.